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Towards a European Federation through a Citizen-Centric Fiscal Union

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Abstract

Drawing concepts from different economic and political academic fields and combining them in a common theoretical background, a synthesis of a single theoretical framework is attempted from which to derive a conceptual model of fiscal policy for the political integration of the EU in the form of a federation. After reporting the shortcomings in the design of the European architecture and critically analyzing the neoclassical economic theory on which it was based, the emphasis is placed on institutional economics for highlighting growth fiscal strategies, from which key drivers of economic and social productivity are revealed to be entrepreneurship, endless innovation, the economy of knowledge and processes of creative destruction, all integrated within the framework of an innovation system. A supranational system of innovation is argued to stand as the fundamental evolutionary pillar for economic and social development, through a network of decentralized structures of taxation and fiscal autonomy. The above findings are expressed through a model of 'citizen-centric' fiscal union policy, assessed as the most appropriate way to EU federalization.

Keywords: European Union, Fiscal Federalism, Institutional Innovation, Social Entrepreneurship, Development Pathways

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1. Introduction

Prior to the Maastricht treaty, each European country managed its own independent economy, depending on its Gross Domestic Product (GDP), average income and consumer profile, factors that differentiated each country's endogenous structural features. Certain criteria were thus set that would ensure compatibility between countries, laying a common ground for overcoming the obstacles posed by the heterogeneity of institutional infrastructures and by extension their evolutionary dynamics. The ultimate goal was to achieve a smooth path towards unification and economic convergence, avoiding development gaps between countries. The euro created visionary expectations of institutional development towards a European economic governance, which would function as the transition process towards political integration.

However, incomplete economic planning of the original treaty degraded and neglected the regulation of key institutional and structural factors of macroeconomic dynamics, which showed their negative imprint from the beginning of the implementation of the European reform programs. National governments intervened with institutional restrictions on their product and labor markets, violating the rules of discipline and this in turn contributed to the escalation of major malfunctions, which cumulatively led to the failure to achieve the initial goal of economic convergence. Particularly with the crisis of 2008 and the lack of central coordination towards a common direction, the philosophy of the Maastricht architecture entered into deep skepticism, followed by the neoclassical model of economic theory that stands as the dominant theoretical edifice of European integration. The financial crisis of 2008 highlighted the competitiveness crisis of Eurozone member states, their deteriorating trade and budget balance and the institutional imbalance of the EU as a whole (Giuliodori and Beetsma 2007).

This study concerns the key coefficients of divergence of European economies, despite the assertion of the theory of international trade for gradual convergence of economies in open market conditions. In addition, it aims to shed light on whether it is possible for a fiscal-type supranational union to serve the goal of institutional and developmental convergence and in parallel to act as a reinforcing factor for the EU Member States to undertake the path of federation.

In order to undertake the research project set out above, which is the theoretical and empirical documentation of the proposed model of a different way of understanding fiscal policy, i.e. the citizen-centric fiscal policy, it is deemed necessary to firstly present the approaching method of the research material. The challenge is the successful fusion of the diverse theoretical fields and the development of a strategic method that will shape and distinguish each separate step, placing them in a series, gradually, with the aim of unifying the wider theoretical areas, emphasizing the bridges and sequences between them, with the whole effort to be a persuasive argument for the model proposed.

Initially, identification of the specific structural weaknesses in the establishment of the EU structures serves the purpose of basing the present research on the failures of the policies implemented and proposed so far. The persistence of the solutions and treatments advocated, while proving inadequate in practice, has led to the critical examination of the theoretical basis from which they derive, being the neoclassical approach to economics. The next methodological step is to verify the positive relationship of the federation with the economic development of the member states and to highlight the conditions for this positive correlation. Then follows the distinction of the typology of federations and the selection and association with its most promising version. Towards the end, the article offers an outline of the current processes and rearrangements in EU, due to the urgent challenges, in order to be seen in the light of the political transition to new structures of federal direction. Drawing from the literature of fiscal federalism and fiscal decentralization, the concept of political decentralization implies the existence of a space that allows the free circulation of ideas and citizens, at the same time undermining the strong influence of vertical hierarchy in the enforcement and control of decisions. In addition, it gives space to the expression of political and economic diversity in terms of forms of organization of businesses and institutions.

The central thread that runs through and unites all the methodological steps is the satisfaction of the development criterion. It is rejected as a barren path, any institutional intervention that potentially threatens or stands as an obstacle in the way of economic growth and development. Through this filter, the institutional planning of fiscal decentralization is preferred, as the conduit and channel with the best perspective in terms of favoring infrastructures of development. At this point we meet again the fertile plain of institutional economics, which offers the toolbox with which every latent developmental potential of the social and economic system is properly utilized. It is important to put into microscope the micro-structures of economic transactions, to locate the root from which all creative change will emerge. Any grandiose planning at the highest governmental and fiscal level, in the micro-structures of transaction costs will find the ground to germinate and spread. A conceptual framework is produced to highlight these points.

Throughout the interpreting analysis we will also meet the theory of endogenous productivity and growth, with which we will enter into a pivotal alliance with its main concepts, these being entrepreneurship and technology, and their combination that is called innovation. Our study will identify these factors as the most promoting and reinforcing for accelerating the rates of the development course, together with the concepts of economic freedom, historicity and path dependence (Hausmann 2013). So, after the creative forces are freed through the channel of entrepreneurship and labor, pushing productivity to new limits, mobility is also observed in political institutions. The concepts of transparency and equal opportunities come to the fore and the foundations are laid for the establishment of democratic institutions of assertion and co-decision. The concept of a national innovation system has been thoroughly studied in the literature and for our research, stands as the ideal platform to connect the above factors in a holistic system of productive structures, an expanded innovation system based on political institutions. A link in this interpretive framework of economic development, its transaction currency, is the concept of knowledge, its exchange and diffusion. Finally, the most dominant concept that expresses and shows the center of gravity of the turn taken by our interpretive approach is economic complexity, together with its corresponding conditions in the political field, illuminated by the term 'creative destruction'.

The political and economic path of a country and the prospect of its development are determined through examples of closed or open institutions, effective or ineffective, taking the case of Finland as an example. The incentives formed by the institutional structures mainly concerning the freedom of entrepreneurship at micro and macro level, are the most important factors in promoting favorable conditions of political equality, leading to an environment of innovation and economic growth, influencing the choices and decisions of investors and entrepreneurs. The distortions that occur when the state intervenes in the market, for purposes other than social welfare and development, are at the core of the dysfunctions.

Policies that pave the way for institutional change are policies that incorporate the logic of creative disaster into their implementation and turn the evolutionary trajectory into the implementation of network-centric infrastructures. These are policies that historically and empirically push transaction costs down. The conceptual framework so far implies a, wide enough but strictly, economical perspective to the subject area of European integration politics, but can be opened up to include various other academic disciplines like sociology, political theory or cultural studies. The term institutionalism, by the way, is also referred to various versions of European studies, as for example the rationalist or the discursive approach. These theoretical dimensions lead to different conceptualization of the European political architecture, emphasizing on specific aspects of the structural properties of the emerging political apparatuses, like the complexity of the system (Hix 2022), the complexity of governance (Kohler-Koch 2010), or its civil form (Chryssochoou 2021). This article however, chooses to be oriented by the economic field of institutional economics, drawing from empirical literature of actual political-economic experimentations on the ground, having also established links with political theory and historical reasoning, incorporating key findings by the above authors from the broader field of European studies. Therefore, it is useful to begin our argumentative framework by offering a comparative analysis between neoclassical and neo-institutional economics, in order to clearly attribute the advantages and the perceptual range offered by the conceptual arsenal that stems from the latest additions of institutional economic theory.

2. Theoretical overview

2.1 Neoclassical theory

The established path in the way of handling the fiscal program is the perspective of the neoclassical economists that focuses on monetary policy, the management of member states' debts, the drawing up of fiscal restraint rules and labor market regulations. An offshoot of this approach is the theory of optimal monetary areas of Mundell (1961), where optimal practices of maximum mobility of the economic coefficient of labor are sought, in environments of macroeconomic imbalances and asymmetric economic cycles. The effort is to find ways to absorb the shocks from financial earthquakes due to the asymmetric development potential of the countries and the existence of a common currency that binds them in a single system. In the short term the solutions proposed are effective, but they are characterized as fire-fighting because they do not touch the deficits in the basic architecture of the Eurozone. Thus, the impasses require a course of thought towards deeper structural levels, which act as barriers for the convergence of countries, in terms of key macroeconomic indicators, such as productivity and competitiveness.

Neoclassical theory, a theory on economic growth being the result of three factors — labor, capital, and technology ((Solow 1956), assumes that market is autonomous, self-regulating and governed by its own laws. At the same time, however, it is implied that states must establish rules to regulate economic activities, provide a favorable environment for entrepreneurs and help overcome market failures. This contradicts the original conditions of autonomy and self-regulation.

An additional important critique of neoclassical theory focuses on the way it deals with technology. Although it assumes that technological evolution is the key causation for economic development in the long run, it does not explain the factors that determine technological progress. It can also interpret neither economic change nor innovation. The theory assumes that technological progress is exogenous to economic development and that technology is embedded in capital investment. Technology is considered a public good, to which every company, wherever located, has access. Thus, the importance of technology monopolies is not taken into account and it is assumed that economic agents have full or certain knowledge and access to available technology, thus omitting uncertainty and inadequacy in the dissemination of knowledge (Gilpin 2001).

Neoclassical analyzes moreover, do not provide a historical account of the development process and its effects on the power and interests of the key players in the economy and therefore don't provide an interpretation of its evolving nature. They do not also provide an adequate conceptual framework for understanding economic change and its dynamics. As (Krugman 1991b) observed, neoclassical approach to economic affairs involves neither the dimension of time nor space. Consequently, it cannot adequately analyze the historical development or geographical structure of an economy.

2.2 Institutional economics

New institutional economics, by contrast, have been strongly influenced by research developments in the field of industrial organization (Cabral 2017), emphasizing the importance of oligopolistic competition, increasing scale yields, cumulative processes and technological innovation, thus internalize historical processes, institutions and the dimension of space. They challenge basic assumptions of neoclassical theory, such as perfect competition, consistent scale performance, and perfect information. The world that these theories describe, such as economic geography and the new theory of commerce, is just as likely to lead to divergence or convergence of economies, a world in which governments play a key role in economic matters. In fact, national differences in innovation and the use of technology have become vital elements that determine fluctuations in national economic growth indicators, national competitiveness, international trade, productive and democratic standards. Competition between national economies for technological superiority has become a key feature of the international political economy.

The new theory of endogenous growth suggests that national economic structures, institutions and public policies are the main determinants of technological and economic development. The theory focuses on the elements that define innovative activities and the dissemination of technical knowledge in the production process. The emphasis the theory places on human capital weakens the theory of convergence (Barro 2012). When the stock of human capital is significant, a rich country can maintain its lead indefinitely over the poorest countries, creating new savings and investment. The evolution of a regional economy and its structure is largely determined by what Arthur called the "path dependence" phenomenon (Arthur 1989). According to this idea, the historical past and the cumulative processes largely determine the choices available to a decision maker and the context in which decisions are made.

According to (North 1991), institutions shape the motives of each side for exchange – social, political and economic – and consequently affect the performance of economies, something that neoclassical theory ignores. If institutional facilities provide productive incentive structures then organizations, companies or political parties can also devote their efforts to productive activities. Long-term institutional change is the cumulative consequence of countless short-term decisions of political and economic entrepreneurs, otherwise called historical heritage, which both directly and indirectly shape growth performance. The interactions between institutions and organizations shape the direction of institutional change.

In conclusion, the theories of institutional economics focus on the manner and conditions of economic development, penetrating in depth and breadth into the structures of the economy. Economic growth is understood as the creation of innovative ways of production, in new technological environments, with additional factors that contribute to knowledge acquisition and business utilization. The main operational challenge of the development trajectories are the roles and capacities developed by the public sector, with the prospects of its policy choices and the corresponding institutional reforms, through appropriate rules of conduct, incentives and penalties. At the same time, the legislative mechanisms of transparency and information symmetry, the safeguarding of the property rights and the sufficient degree of compliance with the respective conventions, contribute to prosperity (Rodrik 2008). So in an environment of low transaction costs in securing of property rights, obtaining information and contracting, societies tend to develop internal bargaining initiatives and thus arrive at optimal choices, economically and institutionally. (Kyriazis and Economou 2019). Markets are entrenched in broader socio-political structures and cultural environments that significantly influence the purpose of economic activities and set the boundaries within which they operate.

2.3 Towards an effective development strategy

Economic growth and technological change are accompanied by creative destruction (Schumpeter 1932), which means that established businesses are being replaced by new ones and new technologies make existing skills and machines obsolete. The derivative of open institutions is the facilitation of the innovation momentum, with the main help of scientific discoveries and entrepreneurs, creating a level playing field in terms of competition, and encouraging new businesses to enter. Closed institutions cannot not lead to sustainable growth and creative disaster.

The issue of transaction cost is the basis for the formation of strong interest groups, who may have better and cheaper information and achieve favorable arrangements to the detriment of other groups. The task of the government is to reduce the costs of organization and trade so that information is disseminated more widely, and thus weaken the basis for the formation of privileged groups. Market failures and inequalities of political power and wealth translate into unequal distribution of opportunities (Marrazzo and Terzi 2017) which translates into missing economic dynamism and inefficient utilization of available wealth resources and brain power.

The compass of public policies should be their contribution to productivity. Research shows that entrepreneurship fails to grow, where there is degraded legal quality and high levels of corruption. In contrast, economic freedom combined with secure property rights creates a strong incentive for entrepreneurs to innovate, invest and accumulate wealth (Acemoglu 2003). The key aspect of economic freedom is its correlation with government spending and tax, showing the degree of government intervention in the market. (Coase 1960) points out that the lack of coordination and cooperation caused by barriers to trade is the lost potential for the emergence of innovation, as it prevents creative disaster.

Development strategy today must be based on the evolving productive logic of information technology and of knowledge economy. The focus should be on the new exportable products, not on the liberalization of imports. This indicates a dual strategy to support industrial development and promote diversification. Rapid growth in the developing world has always been associated with diversification of production into manufacturing and modern services through a rapid pace of transition, while slow growth has often been associated with the expansion of low-productivity services (Rodrik 2013).

With the neoclassical model of economic growth, it was considered that countries converge on the income levels through a process of accumulation of capital, a prediction with little support in reality. Poor countries remain poor because they lack the knowledge to produce high-tech goods. Countries that benefit most from foreign direct investment and from integration into global markets are those whose domestic businesses and institutions develop domestic technological capabilities, both through R&D investment and staff training, as well as training through interconnections created between domestic and foreign subsidiaries, in other words human capital.

Development strategies must be interested not only in R&D and knowledge creation, but also in how they are acquired, adapted, disseminated and used in diverse local environments. The use of new technologies requires education as well as specialized training. Also, the use of new technology often requires access to additional inputs, such as supporting industries, licensing, funding for new equipment, as well as strong external orientation, significant use of foreign knowledge (including imitation and reverse engineering), macroeconomic stability and financial incentives in an institutional environment friendly to entrepreneurship and innovation. Government policy also plays an important role in tackling coordination and information failures, which can hinder a sustainable industrial development process. Any proposed new government policy or measure should ask itself if it enables society to innovate, if it promotes social and economic flexibility rather than hindering and punishing innovation and entrepreneurship.

Therefore it is concluded that neoclassical theory is unable to include in its scope all factors of productivity and growth. It lacks the conceptual framework to include the dimensions of structures, institutions, history and evolution, collectively entangled in a holistic set of causal principles. The neoclassical theory cannot represent the inherent dynamics of the environment surrounding economic activity and thus the evolutionary dimension. On the other hand, institutional economics successfully incorporates every factor of latent growth potentials that emerge from historically ordered economic structures.

3. Interpretive framework

3.1 Key concepts

The conceptual methodology involves the creative placement in interaction of the theoretical and empirical findings from literature related to the above comparative analysis. The selection of theoretical fields and their stitching according to the appropriate interpretive assembly, aspires to be an original reading of the field of interactions between economic development and political organization and can be used as a suitable starting platform for the conception of a new architectural design for the politico-economic unification of EU.

The interpretive framework assumes that political integration of EU is possible through a European system of innovation, coining the term ‘endless innovation’ to denote the continuous and long-lasting innovation process as the most effective long-term growth path. The multidimensional phenomenon of growth can be revealed by two complementary ways, on the one hand through the systemic approach to innovation and on the other, through the toolbox offered by the concept of economic complexity. Economic growth ultimately tends to be equated with innovation and the two alternative approaches to growth, draw their momentum from the same source, innovation, and that is why it is necessary to map this area in detail.

Competitiveness, whereas it was considered a static comparative advantage, today it depends not only on production cost factors or on a advantage of technical know-how, but on continuous innovative efforts, on developing new skills, reaching advanced level learning of how to continue learning, together with various infrastructures of technological and institutional nature, i.e. effective transport, communication and incentive support systems. Therefore, innovation undermines not only designing new products or new production processes, but expands further into novel organization techniques regarding business management and imaginative entrepreneurial styles. The field of knowledge is currently undergoing a new evolutionary wave, during which people are called to exercise a variety of new skills, becoming "knowledge workers" (Drucker, 1994), in need for lifelong learning systems from multiple providers.

(Nelson and Winter 1982) define an innovative environment as the complex network of informal social relationships in a limited geographical area, which enhance local innovation capacity through collaborative learning and tacit knowledge. This process of continuous collection and adaptation of knowledge is driven by mechanisms of interaction between actors and their environment. Economic growth is a result of these interactions at the micro level.

Innovation disrupts the prevailing relations and causes a leap from the old to a qualitatively new situation. Innovation has two interrelated social functions: it changes the economy and compensates for the law of diminishing returns. It is the act of giving resources a new ability to create wealth. (Schumpeter 1932) argued that the dynamic imbalance created by the innovative entrepreneur is the "rule" of a healthy economy and the reality of economic practice, instead of balance and optimization proposed by the neoclassical model.

A growth fiscal policy, in addition to the goal of mitigating market failures, must be complemented by three concepts embedded in neo-institutional economics, i.e. the idea of technology, the idea of the entrepreneur as the driving force of innovation and the idea of innovation system. Government plays a multidimensional role within an innovation system, as the main provider of financial resources for education, as the shaper of policies concerning the direction of innovation, being responsible for removing barriers from the flow of knowledge and as facilitator of collaborations between different institutions, promoting experimentation.

The interpretive framework so far presupposes the important role that political decisions play in the innovative development of the economy. What mainly differentiate countries in terms of their innovation potential are the different relationships that exist between actors and organizations of the wider social spectrum. The fiscal policy of each country has an important role in the above network of relations. R&D funding comes directly from growth structures and fiscal policy is the main regulator of this momentum. The organization, interconnection and cooperation mechanisms of the ministries are reflected in the culture of innovation that is created, by the extent of the dissemination of knowledge that is promoted, the clustering that is encouraged, the efficiency of R&D investments and their integration in the global market. The conceptual model of institutional change described so far is represented in figure 1

Since the 1990s the development gap between regions within each European country has been widening (European Commission, 2014). Criticizing cohesion policies, they are based on redistributive logic, since they are perceived as a tool to transfer resources from some "winners" to some "losers". But by transforming them into a development tool, they would be the link to a European federation of states through an adapted type of fiscal federalism. This could happen if fiscal policy achieves a wider, growth-oriented common budget, establishing a common European reference on setting the objectives and engaging in cooperation on how to achieve them, through a framework of decentralized structures based on regional competition rather than redistribution of resources.

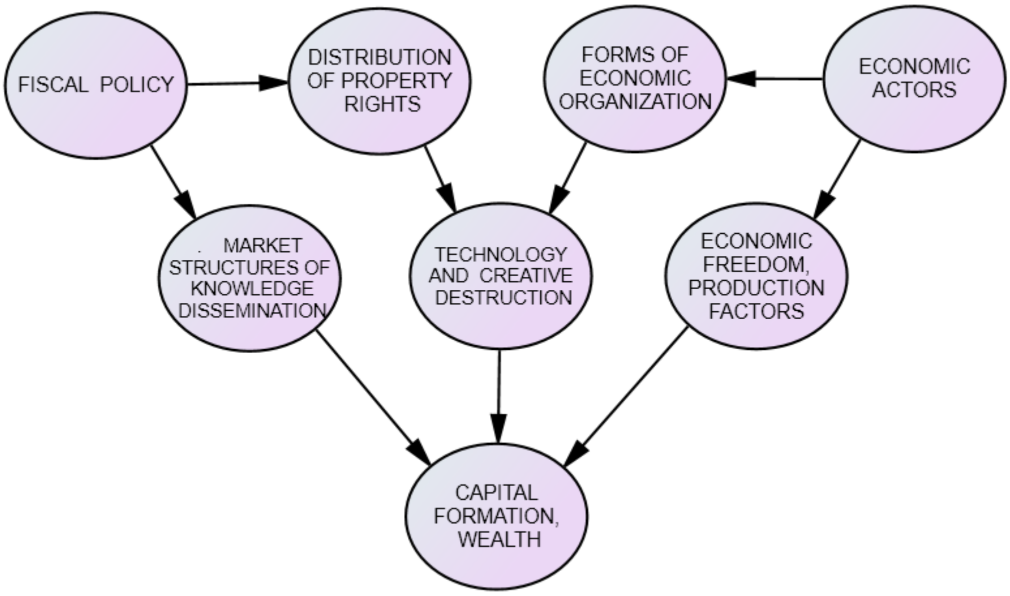


Figure 1 Schematic Represantation of institutional change

The link between the state and the market is the networked civil society, which acts autonomously from below, but needs the support of the state and the market, in order to function as a modern, flexible and adaptable body in accordance with the needs of the new industrial revolution. These three pillars constitute a new proposal for the transformation of the respective national structures into a supranational federal structure that will coordinate, supervise and direct the member states. Innovative entrepreneurial strategies in their systemic form, express and reflect economic complexity, understanding it as the economic catalyst that push political and social transformation into open institutions of various economic freedoms. Innovation, in its collective and supranational dimension, is the model EU is called to set for itself, as a formative and evolutionary goal.

3.2 The example of Finland

Finland departed from resource-intensive industries in the 1970s, after getting over deep recession with a severe banking crisis, unemployment and sedimentation in public finances and ended up becoming a competitive knowledge economy of high-tech ICT specialization. The cornerstone of its R&D strategy was a high-quality education system for all that contributed to a labor market of increased dynamism, creating conditions for a flexible economy, capable of responding to changing opportunities in innovation directions. The government's role was to mediate and accumulate knowledge, information and financial instruments for fueling the entrepreneurial spirit with productive motivations, in addition to forming industrial policies with clear vision for structural needs and long-term development proposals, to be communicated to all actors in the economy. Finland is an equal society with decentralized structures and transparency in the public administration, open to criticism from civil servants, citizens and the media. With collective decision-making, levels of regulation and bureaucracy are low and corruption becomes much more difficult (Djankov et al. 2002).

Tangible performance of its endogenously formed innovation system is the level of R & D investment by the government and the private sector reaching 3.5% of GDP, i.e. above the EU average of 2%. Finland's competitive advantage is characterized by the risk-taking of its firms to invest in new technologies, upgrading their productive capabilities in order to venture into pioneering fields of products development. This is evident by the country's distinction in the number of patents enlisted. In terms of incorporating a democratic institutional framework that bridges fiscal policy with collective decision-making, integrated into an innovation system that ensures perpetual development conditions, Finland stands as a proud example of achieving this goal, using means that resemble a 'citizen-centric' fiscal paradigm, a term that will be explained later.

4. Implementation strategy

4.1 The federal system

Moving the vehicle of innovation requires proper infrastructure, which is technology, human capital and lifelong learning education systems. The bridgeheads for an innovation system are private companies, research institutes, universities and other private entities. The best way to disseminate knowledge is through the interaction of these groups through networks. But within the EU, there are different correlations between these organizations. Thus, a central coordination together with individualized interventions, are judged as the preferred approach. This goal brings the EU closer to a political union, as a precondition and a lever for coordinating the individual forces in a single framework, forming a supranational innovation system.

Based on the above, the study now focuses on finding the appropriate approach to economic and political planning, aimed at upgrading national development performance, and the EU as a whole. Any economic reform of liberal nature must be accompanied by a parallel political reform in order for the political system as a whole to incorporate productively the institutional change that is entailed. This requires fiscal decentralization and the transfer of budgetary power to sub-national governments. Because decentralization of power, which is inherent in the federal system, is a method of setting boundaries in national government, democracy and a culture of consensus in these systems are more likely to succeed (Oates W. 1999).

The approach that advocates decentralization of fiscal policy, expressed by (Fuest & Peichl 2012), considers that further political integration of the EU is deceptive at this stage and support a fiscal system with decentralized liability for government debt, stronger market discipline, debt restructuring and implementation of reforms such as banking and capital markets, in order to reduce financial risks due to high heterogeneity and economic fragility of the Member States.

In a similar vein, inspired by the theory of fiscal federalism, which is defined as the distribution of taxation and spending powers across levels of government, (Eichengreen & Wyplosz 2016) argue in favor of re-nationalizing fiscal policy and abandoning the fantasy that fiscal policy can be further concentrated, because the cost of homogenization is very high in order to achieve compatibility that is specific to the level of fiscal centralism. In other words, this view implies that any beneficial externalities of centralized fiscal policy are not large enough in usefulness to dispel national-local preferences.

4.2 Tax competition versus tax harmonization

Fiscal policy is based on tax strategy which in turn has structural effects on international competitiveness, as is evident in United States, in which taxation functions as an allocation mechanism of capital investment due to interstate tax competition. Conditions of low taxes prove favorable in allowing highly competitive economy to flourish. EU countries should not seek to harmonize taxes but to provide the necessary services the companies need in order for them to be willing to contribute with their tax money to governmental fiscal efforts. Tax strategies should be judged according to the benefits / costs they project as an investment signal to interested parties like businesses and individuals, providing a secure threshold level under which taxes are unlikely to reach, establishing tax competition as a safe mechanism for EU (Halkos and Kyriazis 2006).

Whenever tax harmonization is implemented or called for, the country ends up with high taxes, as is the case for France, Italy and Germany, rising suspicions in other EU countries for this fiscal measure. Tax harmonization, defined as the adoption of a common tax rate, can actually be detrimental to a nation or region, as it does not reflect the optimal tax that meets local demand for public services and goods, given the concentration of the economy in core and not in the periphery (Becker and Rauscher 2007).

The European Union may need to learn from Switzerland on the subject of tax decentralization. Switzerland is a federal country whose power structure is located at both the states, called cantons, and the local communities, validated through a firm constitution imposing the axioms of direct democracy at all three levels of government. This is especially evident in its tax structure that differentiates the tax rates across the canton structure as well as at the municipality level, leaving the central government to rely on indirect taxes. The size of the country allows individuals and companies to have the ability of easy moving to places with low tax burdens, providing the conditions for tax competition to unfold successfully. This suggests that corporate taxation, even within states, needs to be decentralized (Chirinko and Wilson 2017).

(Brennan and Buchanan 1980) coined the term 'state – Leviathan' to allude to conditions of economic monopoly of a cartel when the tax rates are high, allowed by tax harmonization, leading to resources extraction from the economy. Tax competition therefore stands as a limiting barrier for any state's attempt at encroaching market performance, obstructing the expectancy of power groups at imposing their will to the detriment of the citizens, carrying the struggle at the top, rather than at the bottom.

4.3 Fiscal decentralization

Fiscal decentralization approach is considered the most prevalent in favoring the growth prospects of innovation. (Litvak et al. 1998) observe that "decentralization is neither good nor bad for efficiency, equality or macroeconomic stability, but its results depend on the specific institutional planning." Federalism involves a wide variety of political-economic systems. Some promote macroeconomic stability and economic growth, like Switzerland and the United States, while others economic stagnation, like Argentina and Brazil, some show rapid growth, like India, while others have low growth like Mexico. The comparative analysis of federal performance defines a set of conditions and criteria, the degree of satisfaction of which differentiates federal systems into a distinct typology. These are, firstly, the structure of government hierarchy, with each level having a defined scope of power, secondly, the sub-national autonomy in the local regulation of the economy as well as in the power over the public goods and services, thirdly, the common market that allows the mobility of agents and products, fourthly, the budgetary constraints for sub-national governments and fifthly the institutionalized safeguarding of the distribution of political power.

(Weingast 1995) concludes of the ideal type of federalism to be the one called market-oriented federalism which satisfies all five criteria and provides a political framework that supports an effective market system. Market-oriented federalism set boundaries for the appropriate public intervention originating from all levels of government and put barriers to the emergence of monopolies or massive state-owned enterprises, whose unique concern is to ensure jobs and support for privileged groups.

Creative disaster processes can be more effectively managed in federal systems (Aghion and Howitt 2006). From a political economy point of view, federalism can maintain the productive parameters of private economy without the burdens of over-regulation and rent-seeking behavior (Weingast 1995). (Xie et al. 1999) have developed growth models that incorporate the peculiarity of conditions of heterogeneous regions, where a regime change from fiscal autonomy (hierarchical structure) to fiscal federalism (decentralization, bottom-up structure) is associated with higher growth rates. Furthermore, (Oates 1999) pointed out that efficiency requires fiscal equivalence, through local competition, in order for fiscal externalities to pay off. Oates also hinted at the fact that federalism could be useful in terms of policy innovation, coining the term "laboratory federalism" – a system capable of incorporating the effective results from locally performed small-scale experiments. Weingast also calls federal states experimental laboratories that lead to the adoption of best practices through competition.

5. Discussion

5.1 Conceptualing the fiscal processes

The central research question of the present study is how and if the realization of European Federation can be made possible, following the design and implementation of the appropriate fiscal policy framework. European Federation is a necessary condition in order for EU to survive, let alone become a global economic power in knowledge and technology (Lisbon Treaty 2000). By setting common fiscal strategies and making effective use of the interacting networks of civil society and regional markets, EU renews the flow of its economic path. The goal implies a political change not only in national territory but the realization of transition of the existing European Union to a new regime, through the establishment of rules that touch on the foundations of economic and political structures.

Federalism is an active process in an uncharted area, which instills the participation of citizens and their experimentation in transforming political structures. The concern is to find ways to absorb the shocks of financial earthquakes due to the asymmetric growth potential of countries and the existence of a common currency that binds them in a single system. In the short term, the solutions proposed so far are characterized as fire-fighting, because they do not touch the foundations of the Eurozone architecture. Thus, the deadlocks require different ways of thinking, in order to explore deeper structural levels that may act as barriers to productivity convergence between countries. EU can reach a form of political integration other than federation, evolving into a complex structure of multi-level governance and consultation networks, with various and graded degrees of civil society participation. The article assumes federation as the end phase of the process of political transformation in the direction of implementing and deepening the democratic commitments and any middle station in this path, like the states forms mentioned above, can function as propulsion mechanism for this end target.

The path to cross the problematic of federation is to approach it holistically with all the factors of influence be networked in a comprehensive circular arrangement. Communication and visibility between all structural levels is a prerequisite for placing them on an active and beneficial evolutionary trajectory. The stations that act as regulators of the basic operating parameters of the fiscal system, conceptualized as flows, are located in the following focal points (figure 2): (a) the hierarchical and centralized structure of government, (b) the institutional framework of the market, interconnected with the globalized network of markets through telecommunication infrastructures, (c) the sphere of civil society, which includes households, workers and local businesses; (d) the monopoly on the imposition of taxation by the central government; (e) the conditionality in issuing national money, (f) the public budget as a cost-expense to be offset by tax revenue and (g) the nature of fiscal policy as a correction of the deviation from a predetermined course.

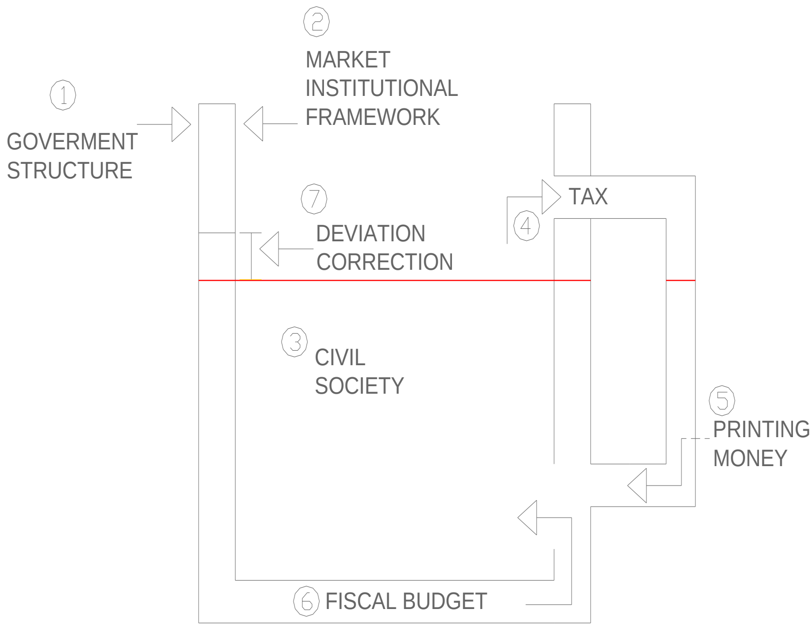


Figure 2*:* Schematic Representation of Fiscal Policy, as a mug with walls, a handle and liquid that flows inside

These stations are the points of assembly of the structural elements of the overall building. They are considered to be consolidated channels for the transfer of pressure and decompression from any conflicts of interest, with the aim of maintaining a balance that ensures the flow of goods, values and prosperity. All stations are supervised from each position but only the government is responsible for the decision and keeping the whole organization alive. The alternative view determines that each focal point can be transformed under the responsibility of the actor and not at the suggestion of the governing authority. Citizens can self-govern, subject their governance structures to constant renewal, co-decide in a collective way the missions and goals of their efforts and apply the principle of creative destruction and radical innovation, in local, national and supranational level. The institution of referendums and initiatives of the citizens are appropriate practices, in conjunction with existing open technological platforms that facilitate citizens in their decision making, like the examples below.

Vivek Kundra increased accountability in the Washington administration by improving public access to public space, by creating a city-wide data warehouse for all government officials and stakeholders to see and help analyze community-wide malfunctions. Steve Ressler, a federal employee, founded GovLoop in 2008 with the mission of inspiring public sector professionals to better serve as the government's knowledge network. GovLoop is a leading site for addressing public sector issues and serves more than 300,000 members, from USA, Brazil, Canada, Israel, and the United Kingdom.

In Ethiopia and Egypt there is GIZ that supports ICE innovation hubs. These are central points that promote collaboration between different people. The Hackday action in Berlin is an example of how people with expertise in specific areas, such as computer programming, can find solutions to problems through communication and brainstorming. Hackday is partnering with the German Open Knowledge Foundation and Vattenfall, with the main focus on utilizing electricity consumption data.

These are just a few examples, derived from (Tapscott and Williams 2010), that show that the world is entering a phase of cooperation between individuals and governments through technology networks, which can be a springboard for establishing widespread intergovernmental, policy and regulatory networks. As a result, the term fiscal policy takes on another dimension, having become independent of the hierarchical and centralized structure with which it has been identified. The government structure is being transformed into a decentralized intergovernmental structure, activating civil society. The federation train can thus run with reduced resistance and fewer weights than what it has encountered so far. The new type of fiscal policy, in the age of federal trajectory, could be called ‘citizen-centric’ fiscal policy.

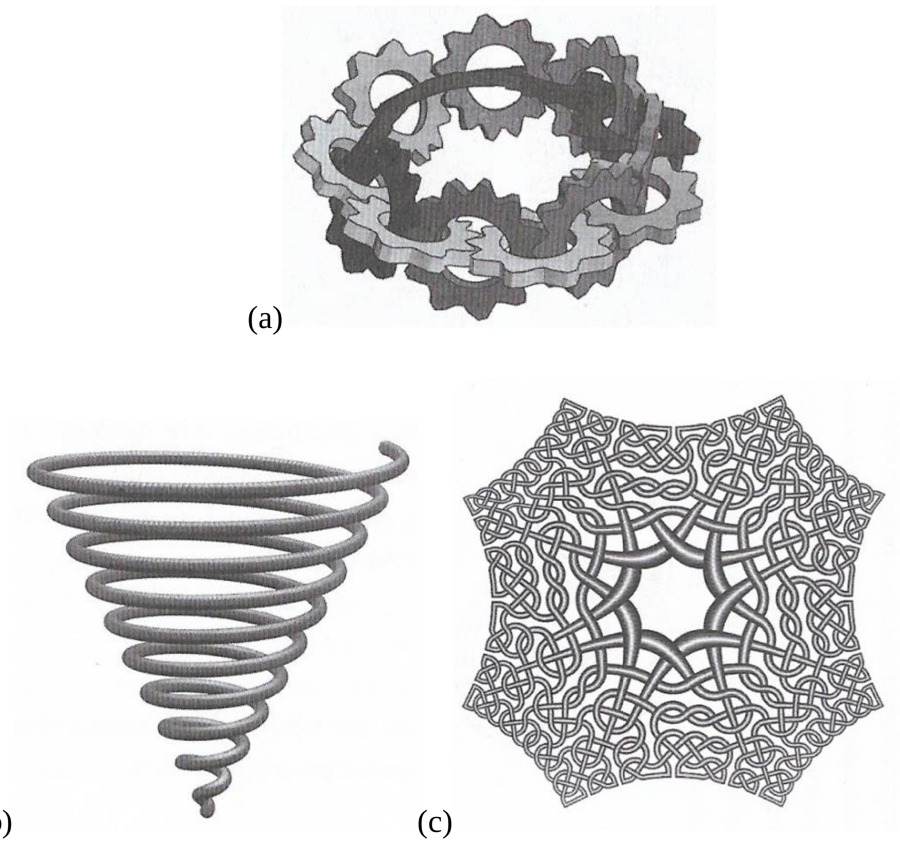
5.2 Citizen-centric fiscal policy

The new structure that emerges is the networking of all citizens and collectives, who can act as agents of change, shaping the market and the production chain of goods and values. The complexity of the products mirrors the organizational structures used for their production. These structures give rise to skills, technical knowledge and practice for each country. The focal point that circulates in these organizational networks is knowledge, explicit and implicit (tacit), constituting the theoretical area of knowledge economy, responsible for introducing innovation, which in turn interconnects all dimensions and transitional phases of the fiscal paradigm. Fiscal policy is called upon to recoil from the role of redistribution and correction of market failures with anti-cyclical surplus budget policies and to take a more active role, as in the example of Finland, shaping the overall vision, providing financial support and institutional coordination for major innovation and development projects (Mazzucato 2013).

Federalization as a process involves the creation of a new level of fiscal surveillance on the underlying macroeconomic realities that make up a single political and economic space. A national economy needs to be reformed in its key areas in order to enter a co-evolution trajectory with the other economies that have taken this decisive step. This new dimension of intercommunication between these upgraded economies is offered in the form of a federal government, whose superstructure is the space of interface and interaction. The concepts of cohesion and convergence, as already defined by the European Policy Initiatives, take on the character of a readiness indicator for the maturation of the conditions for the transformation into a federation.

The concept of knowledge economy summarizes the decisive factor in the transition to modern technological sustainable development. The form of government that promotes this process needs the adjustments that encourage citizen participation in decisions, consolidating the democratic process. The deficit of democracy is the failure to bridge the gap between elite and social groups that are cut off from development, the failure to integrate everyone into the economy of knowledge.

The Finnish experience of the 1990s can be seen as an example of a successful implementation of ‘citizen-centric’ fiscal policy by channeling knowledge into productive channels and realizing the transition into a new economic paradigm. The institutional apparatus put into place consisted of a fundamental infrastructure of consensus building and dense networking of partners willing to innovate, creating on top of it synergies between entrepreneurship, public research and the governmental sector. The challenge was for democratic procedures to install the appropriate outlets for knowledge and decisions in the bottom arena of economic and political transactions, to find upward moving ways through the administerial ladder, all the way until the processes of formation of fiscal policy. This experimental model concerns the allocation of productive inputs across the whole spectrum of society for every citizen to engage, gain knowledge from active experience and undertake responsibility in decision making, leading to connecting spaces of expertise and formulation of carrying effect mechanisms in direction both broadly and simultaneously focusing at the level of policy configuration. Graphic illustration of the above representation is given in figure 3



(a)

(b) (c)

Figure 3 Designs from (Pickover 2006) (a) mobius gears alluding to institutional carrying effect mechanisms, (b) conical helix showing the upward moving of democratic decisions in the institutional ladder,(c) celtic knot showing the paths of tacit knowledge and information through the institutional network to the core of fiscal policy, originating from social base

In order to meet the demands of global competition and to solve the problems that arise locally, nationally and in European level, we need to reopen the terms of the social-democratic structure, integrating innovation into economic and political institutions. The concept of participation, which coincides with the emergence of the new localism (Murray et al 2010), comes to signal the transition from a decision-making model characterized by representative democracy, being the product of the 'top-down' decision-making model in a new participatory or direct democracy for better implementation of national goals (Kyriakidou and Salavou 2014). The idea of democracy must include the perpetual creation of innovations of any texture – socially, politically, technologically, discursively – as a necessary political background for a deep and widespread knowledge economy.

(Paul Romer 1998) argues that economic growth occurs whenever people redistribute resources in ways that make them more efficient, creating an environment with a variety of productive and complex activities. Knowledge as a public good shapes social structure, so that social economy occupies the core of knowledge economy and innovation. A participatory society promotes cooperation and best disseminates tacit knowledge. It strengthens trust and helps transparency, reducing transaction costs and ultimately creating a vibrant network of discussion and action.

Therefore, the model of citizen-centric fiscal policy, which combines the emphasis on innovation and social cohesion, is the appropriate mix of public policies that EU is required to implement in order to remain an active shaper of global challenges. Innovation development structures need political infrastructures to promote the networking of active actors, which are citizens, industry, the state and universities, according to the quadruple helix model (Carayiannis et al 2012). However, this networking requires its expansion beyond national borders, in order to provide effective solutions to global challenges and needs. The local social structures of knowledge dissemination are thus called to unite into wider coalitions of cooperation and the political structures must coordinate the 'bottom' dynamics that are emerging. The above pillars can methodically build the new structure of European Federation, additionally improving common competitiveness.

Expanding the model of thinking in terms of 'systems of development structures' and then in the dynamics of social innovation, meaning the radical redefinition of social problems (Kyriakidou, Salavou 2014), the systemic approach ends up embracing the whole spectrum of a supranational network and social evolutionary dynamics and leads in an understanding of this system as a course of structural evolution in the perspective of federation. Federation is offered as a political reference model, because it combines in its genetic code, decentralization and democracy, but also cooperation, under the supervision and guidance of a central body. The path to the federalization of European countries can thus be understood as the evolutionary path of the political structures that will prevail as the most compatible and appropriate, following the targeted intention of strengthening and promoting local, national, and transnational systems of social and technological innovation.

So by setting the goal of the European Federation we followed the thread that unfolded from fiscal unification of the states, we were led to fiscal federalism and fiscal decentralization, then moved on to decentralized fiscal policies that promote local market competitiveness, focused on the quality of institutions that act as intermediaries in economic activity and produce transaction costs, giving emphasis to the importance of entrepreneurship, economic freedoms and creative destruction, summarized as the new model of endogenous growth, and we end up linking all the above economic concepts in a fiscal policy framework that unites the local with the federal level in a common upward trajectory.

In conclusion, federation is the initial springboard, decentralization is the path towards the dynamics of civil society and development is the shell with which all the endogenous forces of the upward evolutionary trajectory are united in a system of structures. With the 'citizen-centric' fiscal policy, the European Union is called upon to unlock and regulate the latent productive explosion that hides in its societies, through political structures of integration but also local autonomy, as long as it properly cultivates the conditions for their emergence.

Incorporating present conditions

At the European level, the establishment of a common fund, with a budget of 20% of the GDP of the member countries, from which funds would be drawn for each member state to utilize in whatever way each one deemed appropriate, and with a European ministry finance to oversee the process, is utopian at the present time. Such a result is considered possible long-term, during which the citizen-centric policy model is widely consolidated, from the bottom up. The central federal level would undertake the organization and coordination of these incentives, so as conditions mature at the local level initially, in order to gradually build trust, which is not yet shared by the member states among themselves.

But it is important to highlight the political leap that was made in the wake of the unprecedented economic downturn due to the collapse of supply and demand from the covid19 pandemic. To avoid the universal diffusion of the problem, the reaction of the E.U. revealed its fundamental concern to remain unified, decisive and brave, that finally took the form of an innovative fiscal initiative, which concerns the preparation of a large investment program, radically different from the previous ones, in terms of its amount, sources of income and expenditure, mainly in research and innovation. The most radical decision concerned the budget revenues, the increase of which is predicted to be, for the first time, covered by borrowing from the Commission in the form of a bond, which will be covered in the future by new resources and not by contribution from the Member States (Mitsos 2021) .

On the occasion of the crisis from the pandemic, the vulnerable countries were called to face it and that revealed the fact that "Everyone is facing the same storm, but in different boats" (Berès 2020). It was deemed necessary to investigate the causes of member states' differentiation and the importance of the structures of the economy and the quality of governance as the background of their evolutionary differentiation was emphasized (Sapir 2020). The European Commission identified three different investment gaps that characterize Member States, fiscal deficits, over-reliance on third countries in the supply chain and shortcomings in the green and digital transition. President Macron proposed upgrading the common fund to 3-5% of the GDP of the eurozone countries to signal the Recovery Mechanism with the logic that it will not be a "Keynesian-style" transfer of resources, but a structural program of public investment, expressed as an active European industrial policy, which aims at a permanent increase in the GDP of the member states, with a view to promoting European champions, above all in the sectors of the digital and green economy. Mazzucato and Skidelsky (2020) talk about a “fiscal bazooka” and a new fiscal way of thinking.

The establishment of the Recovery Mechanism removes the E.U. from the regime of "fiscal regulation", where member states commit to fiscal priorities, to that of a fully federal government, with real taxing and spending powers. But countries like the Netherlands support solutions that are sought in a smaller budget, stricter rules and lower ambitions, in something reminiscent of the design of a hydraulic system, with the implementation of many small reforms. Thus, although the European Stabilization Mechanism has been strengthened, it is maintained as a purely transnational institution, and not of supranational inspiration. The banking union is not complete, automatic stabilization mechanisms at European level are not foreseen to exist in the near future, the decision on European corporate taxation is constantly postponed, as is the introduction of a transaction tax. For J. Habermas, the best description of the current model of European governance is "executive federalism" (Habermas 2015) while he envisions "democratic federalism", as a way of transforming the European project into a process that will increasingly be driven by the people and not by the technocratic elites.

In conclusion, the following can be derived from present conditions, discerning parallels with the argumentation presented in this article: Federalization as a process involves the creation of a new level of fiscal supervision over the underlying macroeconomic realities that make up the unified political and economic space. This new level contributes to the unification of the heterogeneous economic-political spaces through interventions of a budgetary nature in the sectors that act as levers for the transition of the edifice to a level that welcomes the integration of these heterogeneous spaces with each other. These areas are the labor market, the pension system, the education system, the innovation system, among others, but through the structural approach, they are the seven dimensions of the citizen-centric fiscal policy model developed earlier. These focal areas have been observed to function as a substructure on the base of the superstructure, i.e. they function as the points at which evolutionary trajectories change direction and destination and as axes of movement in phases of transition to a new evolutionary paradigm. So far, governance networks are at work, against consultation and alternative civic networks that would accelerate the transformation dynamics.

6. Conclusion and suggestion

Policies that pave the way for institutional change, creative disaster, innovation, and productive networking are policies that historically and empirically seem to push transaction costs down and promote growth. High taxes, bureaucratic expenditures and budget deficits are directly related to low trust and insolvency of the state, and raise the question of whether the current fiscal regime provides the right incentives. Having seen a gap between the state and the market, in which the need for civil society to enter is evident, as technology allows, the proposed development strategy is a strategy of promoting ‘endless innovation’ and ‘citizen-centric’ fiscal policy versus redistributive. A practical proposal is for a substantive part of state revenue, through transparent platforms and symmetry of information, to be given to companies and organizations of social benefit, but with citizens to have a say in proposals, in terms of planning and decisions. The European centralized bureaucratic structure located in Brussels, can thus be transformed into a decentralized, geographically dispersed, network structure of open, transparent and citizen-centric organizations.

A hybrid model between state, market and civil society is therefore proposed, which will highlight citizen-centric fiscal policy through a productive social entrepreneurship platform, in order for social needs to be approached in an effective way. This will help spread the culture of solidarity and cooperation, the dissemination of knowledge and the development of business culture. The problem of the trustee will be addressed at its root, as well as that of the free rider, having always occupied fiscal systems. Also, the prisoner's dilemma will lose its power, as the power of cooperation will emerge as more beneficial. The historical case of ancient Athens with its direct democracy, confederations, military phalanx and trireme (Ober and Manville 2005), stands as a bright example of efficient economic development through cooperation.

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